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From:

Sent: Monday, December 13, 2010 1:06:10 PM

To:

Cc:

Subject: FW: EITC-Bogus Sch C

I am resending to submit as CCA.

I coordinated your question with the EITC Headquarters function. Their procedures are consistent with the SCAF memos, which conclude that the schedule C income and expenses should be fully disallowed.

Specifically, we were told the following:

The campus makes a determination to either allow the Schedule C income or not. The campus does not move the income to "Other Income". The programming is set up to disallow the income if the taxpayer does not respond.

This is the paragraph that generates on the CP 75 notice to the taxpayer:

Schedule C - You must have earned income to claim the EIC. Please complete and send us the enclosed *Form 11652, Questionnaire and Supporting Documentation, Form 1040 Schedule C (Profit or Loss from Business)* to help us determine if you have the right amount of earned income.

These are the two paragraphs that generate on the 4549 report explanation to the taxpayer:

Because we determined that the activity described on your Schedule C does not meet the guidelines of carrying on a trade or business within the meaning of Internal Revenue Code Section 162, we removed your net profit and adjusted your self-employment tax to zero.

Because you do not maintain a trade or business from which you have self-employment income, you do not have net earnings from self-employment within the meaning of Internal Revenue Code section 1402(a), and, therefore, you do not owe any self-employment (SECA) taxes. Because we have eliminated your liability for self-employment taxes, we have eliminated your deduction for one-half of the self-employment tax, which you took as an adjustment to gross income on page 1 of Form 1040.

Guidance on working Schedule C responses is found in IRM 4.19.14.5.1- which I have attached.

In short, we agree that the Schedule C income and expenses should be fully disallowed and the income should not be moved to "other income".

If you have any other questions, or if the information in this e-mail is unclear or not helpful, please contact me.

Regards--,

